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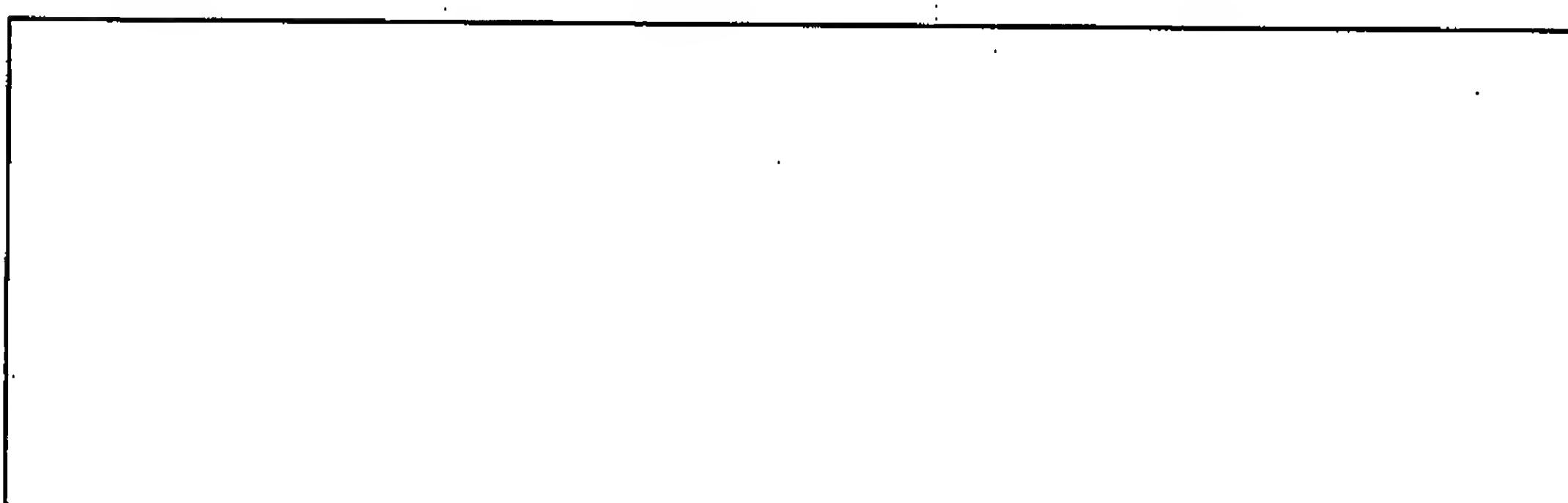
CURRENT INTELLIGENCE BULLETIN

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Department review completed

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FAR EAST

1. Japan informally requests American "political" loan:

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The Japanese Government has approached Ambassador Murphy informally to request his support of a 100 to 200 million dollar line of credit by the United States.

Finance Minister Ikeda, while reiterating Japan's need for fresh capital, told the ambassador that it is politically necessary for the Yoshida government to have this support from the United States prior to the general elections expected in October. He stated that the amount of the loan was not as important as the mark of confidence which it would constitute in the present regime in Japan.

Comment: Yoshida's government expects to be attacked vigorously during the election campaign on aspects of its relations with the United States, particularly the Administrative Agreement and the China trade policy. It undoubtedly believes that a practical demonstration of US-Japanese economic cooperation is essential to counter this criticism. Direct American aid to Japan ceased in June 1951.

2. Little sentiment for Rhee in Korean provinces:

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American officials, reporting on political developments from South Korean provincial centers, generally confirm that Rhee has little genuine popular support in his campaign against the Assembly. They add that petitions and demonstrations are attributable primarily to oppressive tactics by the official and quasi-official organs subordinate to the President.

Comment: Rhee has publicly proclaimed that his over-all campaign against the National Assembly reflects the "will of the people." Only recently the "Communist plot" theme was introduced to justify his dictatorial actions of late May and early June.

3. Economic depression in China reported:

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[Redacted]

Eye-witness accounts from several recent arrivals in Hong Kong give a picture of economic depression on mainland China which contradicts Communist claims that the economy has recovered from the effects of the anti-bourgeois campaign.

A source from Tientsin reports that economic deterioration there is "indescribable." Half the personnel in government trade organs, he asserts, have been purged, and the remainder are fearful of assuming responsibility.

Another report from a former resident of a town in East China states that business there has been at a standstill for weeks and that the number of beggars is greater now than in Nationalist times.

Comment: Economic initiative among private businessmen and officials of government economic organizations has been paralyzed by Peiping's campaign against the bourgeoisie. Peiping's current propaganda, acknowledging the "temporary difficulties now encountered in production and business," declares, however, that this campaign is "basically concluded" and states that the regime will grant loans and orders to business enterprises. It is too soon to assess the effectiveness of these new efforts to restore commercial confidence.

4. Chiang Kai-shek plans increased control over military forces:

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Chiang Kai-shek plans a reorganization of the military forces to increase his control and that of his elder son, Chiang Ching-kuo. During the past six weeks over 3,000 officers have been processed for retirement, effective in July, and hundreds of promotions are being prepared. Opponents of Chiang like General Sun Li-jen will be deprived of their trusted subordinates.

Chiang has also proposed to reorganize the ground forces into separate area commands, responsible directly to him rather than to the chief of the ground forces.

Comment: Although no effective opposition to Chiang Kai-shek exists among Nationalist leaders, his elder son is disliked by Kuomintang members.

The reorganization of the Nationalist Army, suggested by the US Military Advisory Group, will necessitate some officer transfers. The Generalissimo apparently plans to use this opportunity to retire those officers who oppose him and his son.

5. French report increased Kuomintang activities in Southeast Asia:

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the Kuomintang' is multiplying its propagandists and intelligence agents, and attempting to regain control of Chinese schools, unions, and businesses.

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These activities seem to be centered in Bangkok and Saigon. [redacted] in addition to the internal dangers they may cause, they will bring about reactions both in Indochina and Communist China.

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Comment: Reports of Chinese Communist terrorism and experience with the extortion campaign have turned many of the ten million Chinese in Southeast Asia against the Peiping regime. The Nationalists have attempted to capitalize on Communist policy and to win back the overseas Chinese, because they are important as a source of financial support and of increased Nationalist prestige with foreign governments.

For some time the Nationalists have tried to obtain permission to use Indochina as a base for intelligence and guerrilla activities against the China mainland, but the French have consistently rejected this proposal.

SOUTH ASIA

6. Comment on Ceylonese rubber shipments to Orbit:

Ceylon will apparently continue to sell rubber to the Orbit, despite the Prime Minister's announcement of 1 June that the government's export policy is being reconsidered.

The Prime Minister personally favors halting rubber shipments to China, and the government, as a result of the recent parliamentary elections, is strong enough for the first time to embargo such shipments without fear of being overthrown. Current

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Ceylonese queries regarding an American rubber contract like that offered them in 1951, whereby the United States guaranteed to purchase a fixed amount, suggest, however, that only a quid pro quo of this sort would produce a reversal of the present policy of selling to all customers. Otherwise, the Ceylonese Government would hesitate to raise the controversial embargo issue.

Unlike last year, however, the United States no longer has either the administrative machinery or the funds immediately available to purchase rubber, and this may become a major factor delaying a Ceylonese embargo.

Meanwhile, the USSR and its Satellites are in a position to capitalize on any anti-American feeling which may arise in Ceylon as a result of disagreement on rubber policy. Soviet propaganda is already suggesting that the USSR is in a better position to supply South Asia with consumer goods than is the West. The USSR has entered the Ceylonese rubber market for the first time since 1946, and more Communist shipping is becoming available to transport rubber to China.

WESTERN EUROPE

7. West Germans want increase in armored strength of border police:

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The West German Minister of Interior, Robert Lehr, has asked United States authorities to permit him to equip the border police with a second group of 70 American-made light armored vehicles, in view of growing political tension and "danger to the east zonal border area."

HICOG officials note that if a strong paramilitary force is permitted to develop, the Bonn government may not be able to reduce it after the German EDC contingents are raised. They admit, however, that Lehr's request is justifiable because of the signs that the Russians and German Communists are determined to foment further trouble.

They further point out that the Federal Republic still has no substantial force other than the border police to quell large-scale civil disturbances and to cope with possible East German "police" actions along the interzonal border.

Comment: Lehr has also recently renewed his efforts to secure approval of the cabinet and parliament for doubling the size of the 10,000-man border police.

8. Comment on reaction to insulation of East Germany:

The adoption of measures to insulate the Soviet Zone caused a sharp rise in the flight of refugees westward into the Federal Republic, but the flow was cut down by 8 June by reinforcements of Soviet troop patrols and People's Police. The daily average of 190 refugees as of 27 May had risen to 2,000 on 6 June. A large proportion of the refugees are men between 18 and 22 who seek to escape military service.

Unconfirmed reports state that open resistance to the intensive military recruiting campaign is being encountered. Students at the Russian-sponsored Michurin Institute reportedly refused to volunteer, and an overwhelming majority of the administrative employees of the consumers' cooperative voiced open opposition when called upon to approve a national army.

Popular opposition to the anti-unification measures of "sealing" the border and forming a national army may make it difficult for the Communist regime to implement its plans to isolate East Germany. The increasing flow of refugees, the postponement of "People's Police Day," the failure formally to proclaim a national army, and the decline in propaganda on border security suggest such difficulties.